

Office of City Auditor

Sale of Seattle City Light Building

January 14, 1998

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City of Seattle

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Office of City Auditor

Nora Masters, City Auditor

January 14, 1998

The Honorable Paul Schell, Mayor
Seattle City Councilmembers
City of Seattle
Seattle, Washington 98104-1876

Dear Mayor Schell and City Councilmembers;

Attached is our report regarding the sale of the Seattle City Light Building. We obtained comments on our draft report from the Executive Services Department and Seattle City Light. When appropriate, we incorporated their comments into this final report. Both the Executive Services Department and Seattle City Light issued formal responses, included as attachments to our report.

We would like our readers to complete and return the evaluation form at the back of our report. In addition to using the information we receive on the forms to improve the quality of our reviews, we also use the form to solicit ideas for future audits.

We appreciate the assistance and professionalism of the Executive Services Department and Seattle City Light. If you have any questions regarding this report or would like additional information, please call me at 233-0088 or Susan Cohen at 233-1093.

Sincerely,

[signature removed for security reasons]

Nora Masters
City Auditor

Enclosures

EXECUTIVE SUMMARY

In April 1996, the City of Seattle sold the City Light Building, located at 1015 Third Avenue, for \$2.6 million, \$1.1 million more than its appraised value. In February 1997, the purchaser resold the building for nearly \$5.7 million. We reviewed the sale in detail to

- ensure that individuals did not have an interest in both a) the company that purchased the building and b) the City departments that managed the sale or the real estate companies who assisted the City in managing the sale;
- determine whether the City had evaluated options for disposing of the building;
- determine whether the City followed applicable State laws, and City policies and procedures;
- determine whether the timing of the sale was in accordance with City policy;
- determine whether the City received reasonable value.

RESULTS OF OUR WORK

Conflict of Interest: We found no evidence of conflict-of-interest in relation to this sale. Specifically, we found no evidence that any of the partners or investors in the Third & Spring Limited Liability Company that purchased the City Light Building were either

- City employees involved in the decision to surplus the building or in the administration of the sale;
- individuals related to or affiliated with Craig Kinzer or the Seneca Group, the real estate brokers who assisted the City in the sale and negotiated with potential buyers; or
- individuals related to or affiliated with Expeditors, International, the company that purchased the building from Third & Spring Limited Liability Company.

Evaluation of Alternative Options: Before selling the City Light Building to a private company, a re-use options analysis on the building was completed.

Sale Was In Accordance with Existing City Policies and Procedures: We found that the City did advertise and sell the City Light Building in accordance with existing City policies and procedures.

Sale Price Was In Excess of Appraised Value: The \$2.6 million price the City received from selling the City Light Building exceeded the appraised value of \$1.5 million by \$1.1 million.

The Timing of the Sale Appeared to be in Accordance with City's Planning Documents: In timing the sale of the City Light Building, the Executive Services Department attempted to sell the building quickly so it would not sit vacant and cause neighborhood blight. This objective reflected the Mayor's concerns that the disposition be in accordance with the City's Downtown Development Plan and the Comprehensive Plan. The City finalized the sale within one month of Seattle City Light's vacating the building, selling it to a redevelopment company with available tenants.

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PURPOSE

Each year, the Office of City Auditor solicits ideas from citizens, and holds discussion with various groups, on potential audits to include in our work program. One audit recommendation we received regarded the sale of the City Light Building. In April 1996, the City of Seattle sold the City Light Building, located at 1015 Third Avenue, for \$2.6 million, \$1.1 million more than its appraised value. In February 1997, the purchaser resold the building for nearly \$5.7 million. We reviewed the sale in detail to

- ensure that individuals did not have an interest in both a) the company that purchased the building and b) the City departments that managed the sale or the real estate companies who assisted the City in managing the sale;
- determine whether the City had evaluated options for disposing of the building;
- determine whether the City followed applicable State laws, and City policies and procedures;
- determine whether the timing of the sale was in accordance with City policy;
- determine whether the City received reasonable value.

BACKGROUND

In April 1996 the City of Seattle sold the City Light Building for \$2.6 million to a private company, the Third & Spring LLC (originally called the 1015 Third Avenue LLC). Seattle City Light had owned and occupied the building, located at 1015 Third Avenue in the most intensive zoning designation of the Seattle Central Business District Office Core, since 1934. The basement and first two floors of the building were built between 1931 and 1934, with seven additional office floors (known as “the tower”) added in 1957. Seattle City Light completed the relocation to Key (formerly Gateway) Tower in March 1996.

The process of disposing of the building began in 1994, when the City, after consideration of several options, determined it no longer had a need for the building. At that time Mayor Norm Rice assigned the Executive Services Department¹ the responsibility for disposing of the City Light Building and any future property dispositions. The Property Management Section (within the Facility Services Division of the Executive Services Department) managed the process, in coordination with Seattle City Light. Real Property Asset Management, of the Executive Services Department, handled the surplus property determination.

¹ At the time of sale, the Executive Services Department (ESD) did not exist, and the disposition of real property was carried out by the Department of Administrative Services (DAS). DAS was abolished during the 1996 City department reorganization, and ESD was created. One function assigned to ESD was real property disposition.

Craig Kinzer & Co. and The Seneca Real Estate Group, Inc. jointly assisted the City of Seattle in disposing of the City Light Building. The City obtained their services through an RFP (Request For Proposal) process. Kinzer/Seneca submitted a joint proposal to the City, as Craig Kinzer focuses on brokerage services, and the Seneca Real Estate Group focuses on development and financial analysis. The scope of their consulting services included a) performing qualitative and economic site analyses, b) negotiating with potential and actual purchasers, c) assisting the City in responding to the purchaser's "due diligence" inquiries, and d) coordinating and reviewing closing documentation.

SCOPE AND METHODOLOGY

In performing this audit, we examined pertinent documents from City Light and the Executive Services Department. We interviewed officials from Seattle City Light, the Executive Services Department, the King County Assessor's Office, the King County Board of Equalization, and the real estate consulting group that assisted the City with the sale. We also contacted members of the business community who participated in the Request For Proposal process, as well as the current owners of the former City Light Building.

To determine whether the City adhered to appropriate procedures we

- reviewed Washington laws to obtain pertinent authority for real property disposition;
- developed a checklist of the applicable policies and procedures, as set forth in City of Seattle Resolution 26358 and Standard Operating Procedure 100-037;²
- utilized VISIO software to build a flowchart of the major processes the City followed in disposing of this building; and
- compared the City's actions to the requirements of the checklist and applicable State laws.

To evaluate conflict-of-interest issues, we analyzed legal, financial and other pertinent work documents. We also contacted the State of Washington Secretary of State for information on corporate ownership of the 1) Seneca Group, Inc., Craig Kinzer & Co., the consultants who assisted the City with the sale of the City Light Building; 2) G.E. Capital, one of the financial partners of Third & Spring Limited Liability Company; 3) Martin Smith, Inc., who was managing some City buildings at the time of sale, and whose partners Greg and Mickey Smith were also financial partners of Third & Spring Limited Liability Company; and 4) Expeditors, International, the company that purchased the building from Third & Spring Limited Liability Company in February 1997. In addition, the City of Seattle Law Department conducted a legal review of the information we are providing in this report.

² Resolution 26358 and Standard Operating Procedure 100-037 include all applicable City, State and federal policies, regulations, procedures and laws regarding the disposition of City real property.

To evaluate the overall management of the sale, we analyzed the potential risks and opportunities associated with selling the City Light Building and reviewed how the City managed these risks and opportunities. We also researched the databases of the Municipal Research Services Center and the International City/County Managers Association to obtain comparative data from other similar jurisdictions. In addition, we used the Internal Control-Integrated Framework to assess the internal control structure. All the major U.S. accounting and auditing organizations have adopted this Framework as the standard for evaluating internal controls. Finally, we examined data and interviewed officials from numerous commercial real estate companies to gain an understanding of commercial realty standards for selling property.

We conducted our work in 1997 in accordance with generally accepted Government Auditing Standards.

RESULTS OF OUR WORK

We found that the Executive Services Department and Seattle City Light complied with existing City policies and procedures in selling the former City Light Building. In addition, we found

- no indication of conflict of interest;
- evaluation of alternate options for use of building;
- advertising and selection of proposal in accordance with existing City policies and procedures;
- a price in excess of appraised value; and
- appropriate timing of the selling process in accordance with City policy decisions.

Conflict of Interest

We found no evidence of conflict-of-interest in relation to this sale. Specifically, we found no evidence that any of the partners or investors in the Third & Spring Limited Liability Company that purchased the City Light Building were either

- City employees involved in the decision to surplus the building or in the administration of the sale;
- individuals related to or affiliated with Craig Kinzer or the Seneca Group, the real estate brokers who assisted the City in the sale and negotiated with potential buyers; or
- individuals related to or affiliated with Expeditors, International, the company that purchased the building from Third & Spring Limited Liability Company.

During the disposition process, Martin Smith, Inc. did manage three historic buildings that the City owned and other buildings in which the City leased space. However, the management contract between Martin Smith, Inc. and the City of Seattle did not contain any language that prohibited the firm or any partners in the firm from purchasing City property.

Also, we found no evidence that the firm or any partners played any role in the City's decision processes in relation to the City Light Building.

Evaluation of Alternative Options

Before selling the City Light Building to a private company, the City requested that Kinzer/Seneca conduct a re-use options analysis on the building. These options included: (1) finding other City uses for the property (at an anticipated cost of approximately \$40 million to renovate the building and bring it up to current code requirements), (2) keep the property long-term and build on the same site at the end of Seattle City Light's (then) ten-year lease at Key Tower, (3) immediately seeking to lease long-term or sell to Metro, King County, or another non-City government agency (including the FBI), (4) immediately seeking to sell or lease long term to public or private non-profit agencies seeking a central location, (5) performing minimal renovation, leasing the garage and first two floors short-term, then selling at the end of the Metro lease in 2003 (assuming an improvement in property values by that time).

The Executive Services Department determined that none of the above options were viable. Their conclusions were drawn from the following items:

- The City determined from an estimate provided by Arai/Jackson, Architects, and EQE Engineering, that renovation costs would be prohibitive. (See Attachment D for this estimate and Attachment E for estimated costs incurred by Expeditors to renovate the former City Light Building.)
- The City gave City departments an opportunity to submit proposals for using the building but received no suitable re-use options.
- The City's purchase of Key Tower eliminated both City Light's ten-year lease and its need for a new location at the end of the ten years.
- Attempts to sell or lease to other governments proved unsuccessful. Discussions between Metro and the City ended when Metro merged with King County. King County showed no interest in the site. Tentative discussions with the FBI ended when the building did not meet the FBI's requirements, and the FBI identified and expanded its search to a new, broader area of downtown from which to pursue lease opportunities.
- The City pursued but could not identify potential public or private non-profit uses of the building.
- The City did not pursue the option to delay selling until market conditions improved because the City did not want to leave the building vacant, which might cause neighborhood blight.

Sale Was In Accordance with Existing City Policies and Procedures

We found that the City did advertise and sell the City Light Building in accordance with existing City policies and procedures. To ascertain whether there were parties interested in purchasing the building, the City solicited letters of interest for redevelopment options in the *Daily Journal of Commerce* September 25-27, 1995. As required by the City's surplus real property disposal procedures³, the City advertised Request For Proposal (RFP) notices in the same journal October 20-27, 1995 and mailed the same RFP information to a list of 21 brokers and developers who had inquired about possible purchase of the building or other downtown City property, as well as likely brokers and developers that the City's real estate consultants identified.

The RFP process secured firm offers from three companies that were all above the appraised value.⁴ A proposal-rating committee, composed of officials from Seattle City Light, the Executive Services Department and a member of the City Council Central Staff, rated each proposal in four criteria areas: (1) price and other terms of the offer, (2) plans for the building or site, (3) ability to obtain and pay the price offered, and (4) other general information. (The highest and lowest ratings were omitted to eliminate the effect of possibly biased extreme scores.) In all four criteria areas, the committee rated the winning bidder highest.

Overall, Seattle City Light, the Executive Services Department, the City Council and other interested parties communicated well throughout the disposition process. The Executive Services Department and Seattle City Light (especially the Real Estate Manager) communicated frequently through e-mail correspondence and numerous meetings. The City Council received written memos regarding the status of the disposition process. Representatives from both Seattle City Light and the Executive Services Department and a member of the City Council Central Staff all served on the Proposal Rating Committee (see paragraph above for explanation). Finally, the City held a public hearing to discuss the impending sale, and Seattle City Light and the Executive Services Department worked with the Planning Commission and Design Commission⁵ to provide an opinion of how the disposition of the City Light Building fit in with other events occurring in the downtown core. The Planning Commission and Design Commission are both active in numerous downtown development projects, including the Pike Street re-opening, the Library and the Convention Center.

In selling the City Light Building, we found the City complied with all but one procedure regarding the disposition of City real property. The exception was a failure to submit to the City Council a Surplus Property Report, which is an annual report on the status of properties that the City has declared surplus. An Executive Services Department official confirmed the report was not submitted, and stated the Department will submit this report to the City Council annually in the future.

³ Standard Operating Procedure 100-037.

⁴ **Attachment B** provides a listing of participants involved in the building sale process.

⁵ City Commissions made up of private citizens appointed from the planning and architecture community.

Attachment A provides a detailed list of relevant procedural requirements and how the City met those requirements.

Prior to this audit, the Executive Services Department had already begun work on new policies and procedures. The new policies and procedures, currently in draft form, will allow the Executive Services Department the flexibility to make decisions on a property-by-property basis, while still adhering to applicable local and state laws and making decisions regarding reuse and disposition of property consistent with the City of Seattle Comprehensive Plan. In addition, this new document allows for reevaluation of policies due to changes in laws, the passage of time, changes in land use and demographic changes. Finally, the Executive Services Department has drafted a council bill regarding disposition of City real property and expects to send it to the City Council early in 1998.

Sale Price Was In Excess of Appraised Value

The \$2.6 million price the City received from selling the City Light Building exceeded the appraised value of \$1.5 million by \$1.1 million. In November 1995, the firm of Wronsky, Gibbons & Riely appraised the building's value for the City of Seattle in preparation for public bid. Such an appraisal establishes the minimum acceptable bid.⁶ The City contracted with this firm both because of its expertise in appraising Seattle downtown properties and because it had appraised the building in 1985 and 1990. (According to a City official, only a few local firms have this knowledge.) The appraisal concluded that the market value of the property in its "as is" condition was \$1,500,000. In other words, the appraisal estimated the basic value of the property as \$4 million but assumed that transfer of the title from the City to a buyer would likely require demolishing the tower (the seven stories added in 1957), at a cost to the seller of \$2.5 million. Factoring in this liability reduced the appraised value to \$1.5 million.⁷ (See **Attachment C** for a comparison of various figures we discuss in this section.)

The appraiser assumed that the tower would require demolition because: (1) the materials used to construct the additional floors in 1957 contained asbestos and (2) the building was a high seismic risk.⁸ Another factor limiting the property's value was a pre-paid lease, which allows King County Transit (formerly Metro) to operate a large piece of electrical equipment in the subbasement through the year 2003. King County Transit uses this equipment to operate its trolley system. In addition, the buying market knew the building had potential problems that the City could not quantify because of a lack of records. In fact, toward the close of sale, the buyer reduced the offer from \$3 million to \$2.3 by citing problems with the building that the purchaser had discovered during the "due diligence" process. The \$2.6 million price the City was able to negotiate exceeded this offer by \$300,000.

⁶ Standard Operating Procedure 100-037, Section 7.6

⁷ Third & Spring LLC sold the building in 1997 and Expeditors decided not to demolish the tower. Instead, it is spending \$18.49 million dollars on renovations and seismic work.

⁸ Stated in a report prepared by the EQE Engineering Firm, January 1993.

The appraised value was much lower than the value of \$19,916,900, at which King County had assessed the property in 1995. The City had not previously questioned the assessed value because the City does not pay property taxes. However, both the City and the potential purchaser viewed the assessed value as a deal breaker for the building's sale. The purchaser would have to pay taxes on an assessed value of \$19,916,900 even though the building was worth much less, according to the independent appraisal.

In March 1996, the Executive Services Department petitioned the King County Board of Equalization to reassess the value of the City Light Building, suggesting a value of \$2.6 million. The Executive Services Department's petition stated that \$2.6 million more accurately reflected the building's condition, income potential, Metro lease encumbrance and view blockage. The petition also stated that the City had already advertised and solicited proposals for purchase and that the pending sale at \$2.6 million represented the highest offer and the best reflection of market value. In April 1996, the King County Board of Equalization re-assessed the City Light Building at a value of \$1,000 and the land at a value of \$4,000,000, for a total re-assessed value of \$4,001,000. The re-assessment did not take into account any demolition costs.⁹

An official from the King County Assessor's Office, who performed the assessment of the City Light Building, stated that exempt properties (properties that incur no tax liability to the County) often do not get the attention they deserve, and the assessor often does not receive all the information necessary to make the most accurate assessment of the property (often the assessor will value a building with other buildings in the same class). In addition, the City, as owners of exempt property, generally do not pay close attention to the assessment because it does not pay property taxes to King County.¹⁰ The official stated the Assessor's Office will focus more attention on City property assessments in the future because of the inaccurate assessment of the City Light Building, and that property managers and the City also should pay closer attention in such cases. According to an official from the King County Assessor's Office, if the managing department of the City property does not agree with the assessment, the City must initiate an appeal within 30 days of the assessment.¹¹

⁹ The assessor stated another possibility might be to rip out the building's interior and renovate the tower, which might generate a different cost than demolition.

¹⁰ Even though the City does not pay property taxes, the assessment may still be important. For example, the City may compare an appraisal with the assessment to help validate the accuracy of an appraisal. In addition, lease revenues and leasehold excise taxes may be tied to assessed value (as is the case with Key Tower presently).

¹¹ According to the King County Board of Equalization, the deadline for assessment appeals to be considered for that tax season is 30 days from the assessment date.

Higher Resale Value: Although the company that purchased the City Light Building from the City in April 1996 for \$2.6 million subsequently resold the building in February 1997 for nearly \$5.7 million, we cannot determine from the available evidence that the City received less than fair market price. From the time the City sold the building to the time of the resale, downtown vacancy rates dropped substantially, creating at least a 19 percent¹² decrease in available office space and driving up rental rates and property values. Table 1 below represents vacancy rate percentages from three commercial real estate companies that issue quarterly reports on Seattle downtown vacancy rates.

Table 1: Comparison Of Downtown Vacancy Rates--Seattle Central Business District			
Real Estate Company	4th Quarter 1995 Vacancy Rate	4th Quarter 1996 Vacancy Rate	Percent Decrease in Available Downtown Office Space
CB Commercial	8.15%	5.28%	35%
Colliers-MaCauley	5.21%	4.0%	23%
Cushman Wakefield	7.7%	6.2%	19%
Average =	7.02%	5.16%	26%

Note 1: Vacancy rate information in this table is for Class A buildings. Buildings are placed in different classes according to such factors as age, safety, location, and architecture. Although the City Light Building was listed as a Class B building when it was sold, we applied Class A building data because any company that purchased the building would have to upgrade it to a Class A building to meet City regulations.

Note 2: The City entered into a Purchase and Sale Agreement with Third & Spring Limited Liability Company in January 1996. As depicted in the table, the average vacancy rate was 7.02%. However, when the building was resold in February 1997, the average vacancy rate had dropped to 5.16%. The drop in vacancy rates reflected a decrease in available office space. This decrease caused an increase in the sale price of downtown properties, especially buildings that were currently Class A buildings or ones that would be upgraded to Class A buildings.

The Timing of the Sale Appeared to be in Accordance with City's Planning Documents

In timing the sale of the City Light Building, the Executive Services Department attempted to sell the building quickly so it would not sit vacant and cause neighborhood blight. This objective reflected the Mayor's concerns that the disposition be in accordance with the City's Downtown Development Plan and the Comprehensive Plan. The City finalized the sale within one month of Seattle City Light's vacating the building, selling it to a redevelopment company with available tenants.

¹² Vacancy rate information varies from company to company. To help ensure an accurate description of the vacancy rate, we obtained information from three companies.

Requirements for Disposition of Surplus Real Property¹³ and How the City Followed Them

Requirements Of The Surplus Real Property Disposition Process	
Requirements of Resolution 26358 For City Light Building Sale	City Actions
1. Did the City make prompt, informed and consistent decisions regarding the sale of City-owned property?	The entire process, from decision to dispose of the property to the property being sold, took 14-months. The City strictly followed the timeline for the disposal process, as outlined in S.O.P. 100-037.
2. Was there a proper review of the potential public and developmental uses to which the property might be used before it was sold?	Excess property notices were sent to all City departments. Each department had 30 days to respond with options for re-use. Also, The City contacted King County, worked with Metro and the FBI to work out a lease or purchase agreement; but none of those possibilities worked out. In addition, when the City decided to sell the building it advertised for redevelopment options from the development community. The City also advertised for Request For Proposals from the development and brokerage community, and set up an RFP committee to rate the proposals. Finally, working papers from the City document meetings with the Planning Commission and the Design Commission to determine how the disposition would best fit with the City's Comprehensive Plan and Downtown Development Plan.
3. Were current or future uses identified prior to selling building?	See answer 2.
4. Did disposition decisions take into account all potential public and developmental uses, so as to put it to the uses which best serve City policies and interests?	See answer 2.
5. Was the property sold for fair value to produce a reasonable return to the City?	The property was sold for \$2.6 million. See discussion above in condition 2.
6. Was the property deemed surplus by the department, only after a finding from the Executive Services Department ¹⁴ that the property was indeed excess?	Excess property notices were sent to all divisions within City Light and to all other City departments. No others uses were found; the building was determined excess to City needs.
7. Was the property offered for sale based on the following priority system:	Excess property notices were sent to all City departments requesting that interested departments submit in writing how they would use the City Light Building.

¹³ Per Resolution 26358 and S.O.P. 100-037

¹⁴ The Resolution and S.O.P. state the Department of Community Development has disposition responsibilities. However, Department reorganization abolished DCD and merged the functions of DCD into DHHS and other departments. Mayor Norm Rice assigned the Executive Services Department the responsibility for disposing of the City Light building and any future property dispositions.

Requirements Of The Surplus Real Property Disposition Process	
Requirements of Resolution 26358 For City Light Building Sale	City Actions
<i>a. First priority: Low-Income Housing. Property excess to the City's needs shall be offered for sale to the Seattle Housing Authority on the conditions that the authority has expressed prompt written interest in acquiring it and has prepared a plan for its use which accords with the City Housing Assistance Plan and City land use policies and regulations. Property suitable of housing development which the authority is unable, or does not desire, to acquire shall be made available to the Department of Housing and Human Services (DHHS) on the conditions that DHHS advocates such disposal and promptly arranges for acquisition by an appropriate developer.</i>	The Department of Housing and Human Services (DHHS) did return a notice, but stated it was making no definitive claim on the property. Also, the Mayor advised ESD that any disposal option must be in accordance with the City's Comprehensive Plan and Downtown Development Plan. Low-Income Housing did not fit into these plans. Finally, the City made the decision that renovation costs of the City Light Building for other City use could not be economically justified.
<i>b. Second Priority: Job Development for Low-Income People. Property not selected for higher priority disposal shall be made available to the DHHS for economic development, to provide long-term employment for low-income people, on the conditions that DHHS advocates such disposal and promptly arranges for acquisition by an appropriate developer.</i>	See above discussion on DHHS, answer a.
<i>c. Third Priority: Non-City Public Use. Property not selected for higher priority disposal shall be offered for sale to a non-City public agency expressing prompt written interest in the property, provided that the intended use serves general City interests and does not conflict with applicable City land use policies.</i>	Metro and the FBI showed interest at different times throughout the process. Pursuing a sale or lease agreement with Metro was the best option as Metro had need for space and a 25-year pre-paid lease through the year 2003 for the electric trolley system rectifier, located in the subbasement level of the building), The negotiations between Metro and the City ended when Metro merged with King County; the County provided Metro with building space, and Metro was content with the lease of subbasement space for the electric trolley rectifier until 2003. In June, 1995 ESD was approached by a developer interested in the City Light Building on behalf of the FBI. The Executive Services Department began to develop a competitive process for the sale, and began discussions with the FBI. However, its property needs did not mesh with the City Light Building, the schedules of vacating the City Light Building and FBI did not match, and the FBI was given a new, broader area of the downtown to work with, which opened up more opportunities.
<i>d. Fourth Priority: Sale to the Public. Property not selected for higher priority disposal shall be released for sale to the public through a sealed bid process.</i>	The Comprehensive Plan targeted this area as dense commercial development. The City wanted to redevelop and support other development. Sale by public bid accomplished this objective.

Requirements Of The Surplus Real Property Disposition Process	
S.O.P. 100-037 Process For City Light Building Sale	City Actions
4.0 Policy	
4.1 <u>Property deemed surplus to City needs:</u> To be designated surplus by the department which manages it, City-owned property must not be: (1) required for activities mandated by law, ordinance or resolution,(2) retained pursuant to written directions by law, ordinance or resolution, or (3) retained pursuant to written direction from the Executive Department or the Executive Services Department.	Excess property notices were sent to all divisions within City Light and to all other City departments. No others uses were found, and the property was not (1) required for activities mandated by law, ordinance or resolution,(2) retained pursuant to written directions by law, ordinance or resolution, or (3) retained pursuant to written direction from the Executive Department or the Executive Services Department. It was determined the property was excess to City Light and City needs.
4.1.1 Was there public notification of surplus properties made to public agencies identified by ESD, plus other agencies as City Light may select?	A Request for Proposal mailing list was developed by ESD and City Light. Also, the disposition and bid process was advertised in the <i>Daily Journal of Commerce</i> .
4.1.2 Did City Light provide prior notification to the identified public agencies and receive the advice of ESD regarding disposal of the property before seeking City Council authorization.	City Light consulted with ESD as well as the Design and Planning Commissions as to best disposal options.
4.1.3 Did City Light inform ESD and City Council's Utilities and Environmental Management Committee in writing of necessity for a public hearing. (Requirement of RCW 35.94.04)	A letter was sent by ESD and City Light to the City Council on 1/5/96, requesting approval of legislation to sell the City Light Building.
4.1.4 Were there exclusions to the requirements of notification? Exclusion include street vacations, lifting of public easements, sales made through the Treasurer's department the administration of local improvement districts, urban renewal properties for redevelopment, etc.	There were no exclusion to the requirements of notification.
4.2 <u>Disposal Criteria:</u> ESD advises the City Light Department whether to retain or transfer jurisdiction, or prepare legislation to sell property which has been declared surplus based upon the following: (a) One or more city departments have established clear requirements for use of the property, in order to undertake activities mandated by law or regulation; (b) Interdepartmental transfer of jurisdiction or disposal would facilitate or forego opportunities to realize other City Policies; (c) The property is appropriate for use by one or more City departments, respecting its physical characteristics and the timing and term if intended use; (d) Proposed public uses conform to general City land use policies and regulations, such as greenbelts, historic preservation, and zoning.	Excess property notices were sent to all City departments. Each department had 30 days to respond with options for re-use. Also, the City contacted King County, worked with Metro and the FBI to work out a lease or purchase agreement; none of those possibilities were viable options. In addition, when the City decided to sell the building it advertised for redevelopment options from the development community. The City also advertised for Request For Proposals from the development and brokerage community, and set up an RFP committee to rate the proposals. Working papers from the City document meetings with the Planning Commission and the Design Commission and between ESD and City Light to determine how the disposition would best fit with the City's Comprehensive Plan and Downtown Development Plan.

Requirements Of The Surplus Real Property Disposition Process	
S.O.P. 100-037 Process For City Light Building Sale	City Actions
4.3 ESD shall use policies adopted by the City Council to resolve competing interests.	Not applicable because there were no competing interests.
4.4 Seattle City Light should see that known citizen concerns are communicated to ESD when disposal of City property is proposed.	Not Applicable. There were no known citizen concerns when disposal of the City Light building was proposed.
6.0 Responsibility:	
6.1 <u>City Light:</u> Circulation 6.1.1 All surplus designations must be dated, circulated and described by means of the standard notice format set out in Appendix 3 of S.O.P. 6.1.2 Surplus designations must be sent to the list of departments and agencies in Appendix 1 of the S.O.P.	<p>Surplus designation followed the notice format as described in Appendix 3 of the S.O.P. Workpaper documents support this statement.</p> <p>The surplus designation were sent to the list of departments and agencies in Appendix 1, with additions or subtractions as needed due to changes in departments since 1980 when the S.O.P. was established.</p>
6.2. Other Departments: Response to Circulation Notice	
6.2.1 Departments or agencies interested in expressing interest in acquisition or concern (or lack of concern) about disposal of surplus property must notify ESD by endorsing the standard notice format (Appendix 3) and return it to ESD within 30 days of circulation.	The Department of Housing and Human Services did return a notice, but stated it was making no definitive claim on the property. Also, the Mayor advised ESD that any disposal option must be in accordance with the City's Comprehensive Plan and Downtown Development Plan. Finally, the City made the decision that renovation costs of the City Light Building for other City use could not be economically justified.
6.3 Executive Services Department Responsibilities.	
6.3.1 Decide what to do with a property after reviewing all circulation responses and applying policy criteria, subject to City Council authorization. 6.3.2 Determine preferred purchaser by applying policy priorities approved by City Council, subject to City Council authorization. (4-step priority system in Resolution 26358)	<p>See above, 6.2.1. DHHS was the only Department to return a circulation response, and its interest was not definitive. ESD pursued purchase or lease by another government agency, looked into interim uses of the building until the market improved, and ultimately decided (along with City Light) to sell the building by public bid.</p> <p>All priorities were addressed, and the 4th priority, sale to public through a bid process, was the best option. See 7 a, b, c, and d in the Resolution above for details.</p>
7.0 Procedure :	
7.1 Within 30 days of circulation. if no dept. or public agency expresses interest or concern ESD will apply the disposal criteria set out in Section	See 7 a, b, c and d above in the Resolution for details.

4.2.	
Requirements Of The Surplus Real Property Disposition Process	
S.O.P. 100-037 Process For City Light Building Sale	City Actions
7.2 If ESD determines that the property should be sold, advise City Light within 40 days of initial circulation to refer disposal through the Office of Management and Budget (OMB) and the Law Dept., to the City Council for action, with City Light's recommendation that it be offered for public sale. In this event, departmental draft legislation authorizing disposal shall be forwarded for City Council action within 6 months of circulation.	Excess property notices were circulated on 8/28/95, and ESD sent notice and draft legislation to the City Council, via the Office of Management and Planning, requesting approval of legislation to offer the building for public sale on 1/5/96.
7.5 Did ESD inform City Light of all restrictions placed on the property and what conditions were attached to the sale before an appraisal of the property was obtained. City Light shall notify the appraisers of these restrictions and/or conditions.	Not applicable as there were no restrictions placed on the property or conditions attached to the sale prior to the appraisal.
7.6 Did City Light obtain an appraisal to determine the minimum acceptable bid for public sale, and does that value appear in the ordinance authorizing the sale?	An appraisal was obtained which gave the property an "as is" value of \$1,500,000. The selling price of \$2,600,000 was listed in the ordinance authorizing the sale.
7.8 Was draft legislation forwarded to the City Council and did it conform to procedural guidelines provided in the S.O.P.?	Draft legislation was forwarded to the City Council on 1/5/96.
7.9 Was an ordinance authorizing sale to the public drafted to provide for sale to the highest bidder.	The highest bidder was Third & Spring Limited Liability Company. for an amount of \$2.6 million dollars.
7.10 Was an ordinance authorizing disposal to a particular private party drafted so as to terminate the City's authority to that party after 4 months from the effective date of the authorizing ordinance?	The City Council passed Ordinance 118009 on 2/5/96.
7.11 Did City Light submit an annual Surplus Property report, following the Surplus Property Report format in Appendix 4, in accordance with the guidance given in that Appendix? The annual report is a status of properties on which surplus notices have been circulated during the past year, and identifies properties which are likely to be considered surplus in the coming year.	A City official stated the report did not get submitted because the reorganization which abolished DCD and merged the functions of DCD into DHHS and other departments caused a gap in certain responsibilities. According to the new policies and procedures, the Asset Manager will submit the Real Property Status Report to the Real Property Oversight Committee and City Council by March 31st of each year.

Participants in the City Light Building Sale Process		
City Departments	Sellers Representation	Companies That Submitted Proposals
Executive Services Department	Craig Kinzer & Co.	Third & Spring LLC: a financial partnership including, but not limited to, Mickey Smith, Greg Smith, Jeff Roush, and G.E. Capital Nitze-Stagen & Co., Inc. Teutsch Partners
City Light Department	Seneca Real Estate Group, Inc.	
Legislative Department, including City Council		
Mayors' Office		

Comparison of City Light Building Property Values			
	Appraised ^a Value	Re-Assessed Value	Selling Price--Fair Market Value
Property	\$4,000,000	\$4,001,000	\$2,600,000
Estimated Demolition Cost of Tower (assumed)	(\$2,500,000)		
Total Value	\$1,500,000^b	\$4,001,000^c	\$2,600,000^d

^a An independent appraisal is performed to estimate the market value of a property before sale. The County requires an assessment whether or not a property generates tax revenues. According to King County records, the assessed value should equal but not exceed the market value of a property.

^b The appraiser concluded the market value of the property was \$1,500,000. This equals the “as is” value of the property, predicated on the assumed tower demolition cost of approximately \$2,500,000 and an estimated value of the property prior to demolition of \$4,000,000.

^c According to the King County Board of Equalization, the true and fair value of the property was \$4,001,000. However, the re-assessed value did not take into account any demolition costs.

^d This price should reflect the fair market value of the property. Fair market value was determined by the appraisal, as well as by the amount offered by the highest bidder.

<p align="center">Building Condition Building System Detail</p>
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Summary: City Light Building

The following costs would be required if the City continued to occupy the City Light Building for the foreseeable future.

Life Safety

• Sprinkler System & Stairwell Pressurization	\$469,100	
• Misc. Hardware	6,400	
		\$475,500

Seismic Upgrade

• General Conditions & Demolition	\$8,722,381	
• Shear Walls	2,624,592	
• Foundations	235,180	
• Braced Frames	53,295	
• Collectors	1,412,629	
• Girder Supports	11,400	
• Unforeseen Conditions	3,264,869	
• Engineering, Design, Permitting	5,223,791	
		\$21,548,137

Energy Upgrades

• Wall/Roof Insulation & Replace Windows	\$1,991,300	
• Modify Lighting	1,023,000	
		\$3,014,300

Hazardous Materials

• Misc. Removals	\$1,005,700	
		\$1,005,700

Interior Upgrade

• Demolition, New Finishes & Ceiling	\$3,068,000	
• HVAC & Plumbing Renovation	4,460,300	
• Electrical	1,778,000	
		<u>\$9,306,300</u>

Subtotal		\$35,349,937
Administration		3,534,994
Sales Tax		<u>2,898,695</u>
		\$41,783,625

- Seismic Analysis conducted by EQE Engineering Firm
- Renovation Analysis conducted by Arai/Jackson Architects and Planners

Department of Construction and Land Use (DCLU): Permits Issued To Expeditors, International Electrical Work and Improvements on Property Located at 1015 Third Avenue (Former Seattle City Light Building)

Tenant Improvements:			
Permit	Permit Request Description	Amount	Cost of Permit
9702296 issued 8/11/97	seismic strengthening of existing; concept planned for additional stories, and lateral bumpouts - but additions and bumpouts not permitted before issuance of MUP (9700875)	\$1,600,000	
9704977 NOT Issued Yet	mechanical only work	\$2,000,000	
9702987 issued 11/25/97	architectural core and shell remodel and additions - for the full development	\$19,000,000	
Total Improvement Costs =		\$22,600,000	
Electrical Permits:			
Permit	Description	Contract cost per applicant	
750127 issued 6/18/97	preliminary inspection	n/a	\$90.00
750277 issued 6/23/97	temporary service installation	\$22,000	\$735.80
751488 issued 7/29/97	footing ground only inspection	n/a	\$90.00
752376 issued 8/26/97	complete renovation, new service, lighting, fire alarm, mechanical and building equipment connections	\$1,496,210	\$21,409.50
Total Electrical Costs =		\$1,518,210	
Grand Total For Improvements and Electrical Costs =		\$24,118,210	

Note: These values are an estimate of how much Expeditors, International has spent thus far to renovate and bring up to code the former City Light Building. These values are used by DCLU only as an indicator of real value. The indicators should not be assumed to represent real value. There may be more costs incurred and more permits requested/issued before the building is completed in the Fall of 1998.



City of Seattle

Norman B. Rice, Mayor

Executive Services Department
Dwight D. Dively, Director

MEMORANDUM

Date: October 1, 1997

To: Nora Masters, City Auditor
City Auditor's Office

From: Dwight Dively, Director
Department of Executive Services

Subject: City Light Building Sale Audit

Thank you for providing ESD and City Light staff the opportunity to review your draft audit report on the sale of the City Light Building. We are pleased that, after performing the audit, you concluded that the sale was carried out through an open, competitive process; was in compliance with applicable laws and procedures; and that the City received fair market value for the property as a result. We are pleased that your thorough analysis of the process validated our City team's and consultants' efforts.

As you pointed out, implementation of newly drafted disposition policies and procedures will address the fact that an annual Surplus Property Report was not filed (the one lapse identified in your report). The proposed policies, which will be submitted to Council in the near future, will replace disposition policies that are nearly two decades old, and resolve unclear responsibilities due to the elimination of the former Department of Community Development (DCD). DCD had a central role in property dispositions, and in updating policies to address changes in law, other City policies, and planning strategies.

Your staff members have been very thorough throughout this process, and we appreciate the time and care they took to understand the complex issues associated with the sale of a property of this nature. Please convey my thanks to each of them.

DD:MP:gac

cc: Hillary Hamilton, ESD
Steve Hagen, City Light

600 Fourth Avenue, Room 103, Seattle, WA 98104-1891, <http://www.ci.seattle.wa.us>

Tel: (206) 684-0484, TDD: (206) 233-7810, FAX: (206) 684-0188

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Seattle City Light

Memorandum



DATE: November 24, 1997

TO: Nora Masters, City Auditor, City Auditor's Office

FROM: Gary Zarker, Superintendent, City Light Department [*signature removed*]
[*for security reasons*]

SUBJECT: City Light Building Sale Audit

Thank you for providing ESD and City Light staff the opportunity to review and comment on the draft audit report on the sale of the City Light Building. We are pleased, and not surprised, that the audit concluded that the sale was carried out through an open, competitive process, and was in compliance with applicable laws and procedures.

As you pointed out, implementation of newly drafted disposition policies and procedures will address the fact that an annual Surplus Property Report was not filed (the one lapse identified in your report). The proposed policies, which will be submitted to Council this month, will replace disposition policies that are nearly two decades old, and resolve unclear responsibilities that have occurred due to departmental consolidations and reorganizations.

Your staff members have been very thorough throughout this process, and we appreciate the time and care they took to understand the complex issues associated with the sale of a property of this nature. Please convey my thanks to each of them.

SEH:seh

cc: Hillary Hamilton, ESD
Mary Pearson, ESD